

LABOR MARKET EFFECTS OF PUBLIC SECTOR HIRING POLICIES AND INTERNATIONAL APPAREL SECTOR MONITORING IN BANGLADESH

SHAHIDA PERVIN

National Graduate Institute for Policy Studies

Introduction

Employment, human capital, and decent work are key issues of labor economics, which are also at the core of international agendas for promoting sustainable development and improving quality of life. Various types of duality and imperfections exist in the labor market, including the segmentation of public vs. private and formal vs. informal employment, and lack of workplace safety and of balance in market power. The duality and segmentation can stem from different phenomena, such as excessive protection or insufficient support for certain sectors, institutional interventions and legal enforcement, geographical variations, mobility status, and availability of facilities. The imperfections and lack of workplace safety may arise from deficiencies in legal frameworks and monitoring mechanisms, as well as economic viability. Institutions and public policies play significant roles in the labor market and their actions have consequences for employment and human capital.

Bangladesh is a country where public or government sector jobs are attractive compared to jobs in the private or non-government sector. The public sector, the primary formal employment sector, comprises less than five percent of total employment but offers comparative advantages in terms of earnings, social benefits, and job security. In contrast, the non-government sector consists of a small fraction of formal jobs, which do not provide comparable benefits to those in the government sector. Moreover, the majority of the non-government sector is informal, providing almost no income stability, and job and social security. As a result, it is rational for individuals to prefer formal public sector jobs over formal or informal private sector jobs. One of the significant contributors to the formal private sector is the Ready Made Garment (RMG) or apparel industry,

which serves as the country's main export-oriented industry. However, the industry had been notorious for its poor conditions of workplace safety and occurrences of frequent fire and accidents. Following the devastating collapse of Rana Plaza in 2013, which claimed the lives of over 1,100 individuals and injured more than 2,500 in the RMG industry, initiatives led by international buyers significantly improved safety conditions in the industry. This dissertation aims to investigate the labor market effects resulting from the enforcement of workplace safety measures and the presence of attractive government sector jobs.

Effects of Safety Enforcement in the Manufacturing Industry

Work-related injuries, fatalities, and diseases are high around the world, but industrial workplace safety and workers' rights are particularly vulnerable in developing countries. In cases where existing safety mechanisms are insufficient, the enforcement of safety measures may impose additional costs. Compliance with safety standard by incurring high cost of business operation may affect the size of industry in terms of employment and the number of establishments. The enforcement of safety measures may contribute to workers being laid off or replaced by machines for avoidance of stringent measures. It can also lead to the closure of nonviable factories, leaving workers unemployed or transitioning to other industries, or viable firms may absorb them through mergers enabling continued employment. Against the backdrop of the Rana Plaza tragedy and subsequent safety strengthening measures, this study investigates the effects of safety enforcement on the supplier industry.

Since the entire export-oriented garment industry was affected, instead of establishment-level outcome, examining the industry's performance nationwide provides more meaningful and all inclusive impact of the safety measures. The study employs difference-in-difference design to compare apparel dominant and comparison locations (upazilas) during the decade 2009–2019 that encompasses safety enforcement period starting in 2013. Total employment from 2001 and 2011 population censuses is used for the upazilas' employment trend prior to safety enforcement.

In the decade prior to safety enforcement, between 2001 and 2011, employment significantly increased in both comparison and apparel dominant upazilas. Over this period, growth in the apparel dominant upazilas was much higher than in the comparison upazilas. In the following

decade during safety enforcement 2009–2019, both employment and the number of establishments declined. Recently established factories and potential entrants appear to be affected more by the safety tightening measures. It is likely that the industry laid off workers and enhanced productivity by replacing them with machines. A similar trend is indicated by the number of establishments.

Effects of Attractive Government Jobs in the Labor Market

This chapter studies the effects of attractive public sector jobs on employment and human capital. Attractive public sector jobs may cause misallocation and productivity loss and induce the unemployed to prolong their unemployment. Public sector premiums can also affect human capital formation when selection for public sector employment is competitive. Candidates might delay searching for or accepting other employment opportunities by studying for selection exams or getting a required degree. The country's public service recruitment process imposes an age ceiling on eligibility, a policy practice also prevails in other countries. The age ceiling might prompt aspirants to engage in government job preparation throughout the eligibility period, which would release working-age people for other sectors immediately thereafter and give rise to increased employment.

Since 1991, the upper age limit for Bangladesh's public service has been 30 years for general candidates. Exploiting that age ceiling policy, I examine the impact of becoming ineligible for attractive government jobs on employment. Regression discontinuity design (RDD) results exhibit a discontinuous increase in employment at age 30 after individuals become ineligible for government jobs, primarily for females. This effect is particularly notable in 2015–16 and 2016–17, likely due to the fact that the government doubled public sector pay in 2015. The increase in employment at age 30 is explained by higher labor force participation rather than reduced unemployment. The RDD results support the argument that individuals queue for attractive public service without showing up in unemployment, but rather by choosing not to actively participate in the labor market during the eligibility period. The evidence from survey suggests that public sector job premiums can affect occupational choice and lead to misallocation by attracting individuals away from the private sector's employment and entrepreneurship. The survey results indicate that the monetary expense is relatively low and that the time and opportunity costs of time for preparation are substantial. Additionally, this study provides some evidence of potential human

capital or brain gains from preparing for public service exams, although the gains may be outweighed by the high costs of preparation.

Conclusions

The first study finds a trade-off relationship between industry size and safety enforcement in existing underdeveloped settings. Meanwhile, the industry maintains steady growth in capitalization and exports. The finding evokes serious thoughts about policy implications, which can be viewed through different lenses depending on the underlying motivations and priorities regarding economic problems. If ensuring employment is the main goal regardless of the quality of employment and people's lives, then allowing the industry to function without requiring any safety compliance might seem like a good policy. If safety is the highest priority, irrespective of employment, enforcing the most stringent measures and encouraging industry owner to adopt mechanization by substituting labor could also be seen as a sound policy. To address the complex problem beyond the safety-employment and yes-no binary simplification, other issues should be considered such as redefining fiscal mechanisms, stakeholder relations, and ownerships of industry. If the core economic motivation is equitable well-being, then stakeholders need to approach the problem with fresh and innovative perspectives. This study considered only simplified safety-employment nexus in the prevailing state of affairs.

To avoid the possible negative consequences of public service premiums, the second study recommends a restriction on the number of times a candidate can sit for exams rather than the current uniform age ceiling at age 30 in the short run, considering other factors such as the variability of number of years for university graduation, discrimination against older candidates, and special conditions like sickness, pregnancy. Achieving optimum wages and other benefits for the entire labor market in the long run—with no public vs. private segmentation—would be a more sustainable and efficient approach. For sustainability and comprehensive well-being, policies should target the entire labor market, for instance, ensuring minimum wage, unemployment benefits, job and social security for everyone in the labor force.